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ABSTRACT

This booklet is intended to provide New York school district officials with a convenient yet comprehensive source of information on the investment of school funds. The booklet contains nine brief sections that focus in turn on school board investment policy, step-by-step investment guidelines, cash flow charts, types of investments, wire transfer of invested funds, arbitrage, definitions of investment terms, and debt service for city school districts. Although some of the recommended practices are designed to meet specific requirements of New York state law, much of the discussion and many of the guidelines will be of value to school officials in other states as well. (JG)

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THE INVESTMENT OF SCHOOL FUNDS 1976

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Prepared by
The Commissioner's Advisory Committee
for School Business Administration

The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Office of Educational Finance, Management and School Services
Albany, New York 12230

EA 009 900

FOREWORD

The purpose of this paper is to provide a convenient and comprehensive source of information on the investment of school funds. It represents a project undertaken by the Commissioner's Advisory Committee for School Business Administration during the period 1974-75 and 1975-76.

The paper was developed by a special sub-committee consisting of: Henry J. Muller, Assistant Superintendent for Business, Mohonasen Central Schools, Chairman; John Murray, Sr., Superintendent of Schools, Cobleskill Central Schools; Harvey Kaufman, Assistant Superintendent, Cortland City School District; Harry Helsher, Assistant Superintendent for Business, Fayetteville-Manlius Central Schools, Thomas Looby, Superintendent of Schools, Guilderland Central Schools, and special contributing resource person, James Rourke, School Bond Advisor, Bureau of Special Educational Management Services.

The individuals listed below contributed significantly to this handbook as it went through its many redrafts.

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In addition, the following members of the New York State Education Department, who worked with the Advisory Committee, made contributions to this paper and encouraged its continuing development:

Stanley L. Raub, former Associate Commissioner for Educational Finance, Management and School Services

A. Buell Arnold, former Assistant Commissioner for Educational Finance and Management Services

Robert E. Wilson, former Director, Division of Educational Management Services

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CHAPTER I

SCHOOL BOARD POLICY ON INVESTMENTS

A. In order to encourage the investment of school funds, the individual board of education should develop a policy which authorizes the chief school officer, or any other designated official, to be responsible for the temporary investment of school district funds.

Under Section 1723-a of the Education Law:

1. The board of education may authorize the school treasurer or any other officer having custody of district moneys to invest such portion of such moneys as such board may determine in special time deposit accounts in, or certificate of deposits issued by, a bank or trust company located and authorized to do business in this State, provided, however, that such time deposit account or certificate of deposit shall be payble within such times as the proceeds shall be needed to meet expenditures, for which such moneys were obtained and provided further that such time deposit account or certificate of deposit be secured by a pledge of obligations of the United States of America, or any obligation fully guaranteed, or insured as to interest and principal by the United States of America acting through an agency, sub-division, department or division thereof, or obligations of the State of New York or obligations of any municipal corporation, school district or district corporation of the State of New York.

2. Investments pursuant to this section may also be made in obligations of the United States of America or in obligations of the State of New York, subject to the following conditions:

   a. Such obligations, where possible, shall be registered in the name of the school district for which the investment is made.

   b. Such obligations shall be payable or redeemable at the option of the owner within such times as in the judgment of the board of education the proceeds shall be needed to meet expenditures authorized for the current fiscal year, and in any event, not later than the end of such fiscal year.

3. Such obligations, unless registered or inscribed in the name of the school district, shall be purchased through, delivered to, and held in the custody of a bank or banker designated by the board of education for the deposit of such district moneys.

B. The following is an example of a school board policy on investments:

1. Purpose and Safeguards:

The Investment program of the school district is authorized by the Board of Education. It is viewed as a critical ingredient of sound fiscal management, the purpose of which is to secure a

maximum yield of interest revenues to supplement other school district revenues for the support of the educational program of the school system.

The district's investment program will be administered in such a way as to assure:

a. The continual process of temporary investing of all fund balances and monies available to the district for investment purposes;

b. The maintenance (revised following each cash transaction) of a yearly cash flow chart that will provide data to assist proper planning and decision making regarding amount, duration, and type of investments for the school district;

c. The utilization of an open competition system of bids and/or quotes to obtain maximum yield possible on all investments from both in-district and out-of-district financial institutions;

d. That all vendors using school district funds provide a statement to the district of their collateral in the form of a list of the securities pledged at market value; and

e. That all school district investments will be in compliance with Sections 1723-a and 2131 of the Education Law.

2. Delegation of Authority

The school district authorizes its school business administrator and/or the supervisor of accounting to manage all activities associated with its investment program in such manner as to accomplish all the objectives and the intents of this policy. These responsibilities will also include annual review and assessment of district's investment program and filing a report and his/her recommendations annually with the Board of Education. The school business administrator is further authorized to execute in the name of the board of education any and all documents relating to the investment program in a timely manner as well as to utilize reputable consultants regarding investment decisions when necessary. A monthly progress report of investments will be given to the board.

CHAPTER II

"HOW TO" INVESTMENT PRIMER

The purpose of this chapter is to provide, in digest form, the basic general information needed in order to properly invest school funds.

In order to invest school funds, the following steps must be taken.

STEP 1. Authority - Secure authority from the Board of Education (See sample resolution, Chapter I, Page 2).

STEP 2. Cash Flow

A. In order to invest, you must know your "cash flow." Briefly stated, cash flow represents: 1) how much money you have on hand; how much money you will receive in the future and the dates of anticipated receipt of funds; 2) how much you have to pay out and the dates when payments are to be made.

B. By comparing your "cash in-flow" with "cash out-flow," you can construct a chart (see Page 5) which will tell you when you will have surplus funds on hand, the dollar amount of the surplus and the number of days in which this surplus will be available to be invested.

STEP 3. Kinds of Investments

You are permitted to invest school funds only in the following ways:

Certificates of Deposit
Treasury Bills
Repurchase Agreements
Savings Accounts
Tax or Revenue Anticipation Notes of other municipalities or school districts

(See Chapter IV, Page 11)

STEP 4. Before placing surplus cash with a bank, you should "shop around." Depending on local Board of Education policy and the administrative regulations, you should solicit written quotes or telephone quotes from at least two banks. Whenever time permits, written quotes are recommended.

Banks should be required to quote both the interest rate and the actual interest dollar amount which the investment will earn. Funds may be invested with banks outside your school district. (See Chapter V, Page 13).

CHAPTER III

THE CASH FLOW CHART

A cash flow chart reflects the estimated revenues and expenditures by month, for the fiscal year commencing July 1. The chart should also indicate the anticipated surplus or deficit of funds at any given period of the year. During the year, adjustments are made to reflect actual revenues and expenditures.

This type of chart provides important information for implementing a prudent investment program and, if need be, a borrowing program. Many banks require bond counsels to furnish legal opinions on the borrowing instrument and, in these instances, school districts have been required to furnish a cash flow chart.

The following sample cash flow chart covering the period July 1 to October 1 is an illustration of the contents of such a document. It should be noted that expenditures such as payroll, debt service, utilities, and other overhead expenses of the district can be estimated on the basis of prior years' experience. Information concerning estimated State Aid payments and real property taxes are readily available.

The length of time for which surplus funds should be invested is contingent upon the period for which such funds will not be needed. The investment program should be designed to insure that funds will be available when needed to meet the district's expenditure commitments. School districts should strive to make idle money earn interest within the limitations of the law.

In all cases where a cash flow chart is utilized, the board of education should adopt a resolution which clearly defines the board's policy concerning the prompt deposit of tax collections, State Aid payments, and all other revenues. In addition, it should specify the school official who is responsible for the investment of surplus funds.

It should be kept in mind that the judicious investment of surplus funds can become another potential source of income for the school district.

CASH FLOW CHART
for the period
July 1 to October 1

Date	Explanation	Estimated Expenditures	Estimated Revenues	Running Balance
July 1	Opening cash balance (not fund balance)	$	$	$ 247,000
14	Payroll	37,000		210,000
28	Payroll	40,000		170,000
31	Bills	30,000		140,000
Aug. 1	Debt, Principal & Interest	63,000		77,000
11	Payroll	37,000		40,000
15	Bills	40,000		0
25	Tax Anticipation Note		400,000	400,000
25	Payroll	40,000		360,000
31	Bills	50,000		310,000
Sept.1	Debt, Principal & Interest	63,000		247,000
1	Payroll	200,000		47,000
10	Bills	40,000		7,000
15	State Aid		350,000	357,000
15	Payroll	200,000		157,000
20	Bills	60,000		97,000
29	Property Taxes		1,400,000	1,497,000
29	Pay TAN	400,000		1,097,000

The preceding is an example of a very basic cash flow chart.

The following schedules, A & B, are examples of more sophisticated kinds of cash flow charts.

SCHEDULE A is the first draft document; on it you list all your anticipated revenues and expenses with a monthly positive or negative flow. From this you can quickly see where you will stand during the year in terms of borrowing and investing. As you can see, with a positive balance of $2,040,000 in September, you can be investing portions of that balance until mid-February (adding up the negative balances until you hit $2,040,000, minus the repayment of TAN 1 and 2, in August and September).

SCHEDULE B then incorporates the information from Schedule A so one can determine a daily schedule of action based upon the estimated cash flow information. (One who is familiar with cash flow work could go directly to Schedule B from supporting data concerning estimated revenues and expenses for the year).

In using Schedule B, determine how long the cash position will be in balance and then prepare an investment schedule with varying maturity dates to meet the projected cash needs. The opposite will hold true for periods of borrowing.

In order to simplify the presentation, the following presumptions and modifications are made:

1. The certificate of deposit rate is the highest available return.

2. Any cash balance between required dates will be invested in time open accounts, treasury bills, or similar short-term obligations.

3. District will keep a <u>daily</u> cash balance to incorporate any adjustments to tentative cash flow.

4. Many minor items of typical revenue and expense were omitted so the schedules would not become too cumbersome.

SCHEDULE A

Monthly Cash Flow Estimates

Month		Expense		+ or -	Revenues		(Anticipated Borrowing)
July:	1				Balance	$100,000	
	15	Payroll #1	35,000				
	16	Bills	25,000				
	30	Payroll #2	35,000				
			$ 95,000	+ $5,000			
Aug:	13	Bills	30,000				
	15	Payroll #3	35,000				
	30	Payroll #4	35,000				
			$100,000	(- $100,000)			(TAN #1 $100,000)
							(TAN #2 $100,000)
Sept:	10	Bills	25,000				
	15	Payroll #5	175,000		St. Aid	225,000	
	24	Bills	100,000				
	30	Payroll #6	185,000		Taxes	2,300,000	
			$485,000	+ $2,040,000		$2,525,000	(Repay $ 200,000 TANS)
Oct:	1				BOCES Aid	30,000	
	8	Bills	40,000				
	15	Payroll #7	185,000		St. Aid	235,000	
	29	Bills & FICA	140,000				
	30	Payroll #8	185,000		Admis'ns	5,000	
			$550,000	(- $280,000)		$270,000	
Nov:	1	Debt Serv.	125,000		BOCES Aid	30,000	
	12	Bills	40,000				
	15	Payroll #9	190,000		St. Aid	235,000	
	26	Bills	110,000		Admis'ns	5,000	
	29	Payroll #10	190,000		BOCES Aid	30,000	
			$655,000	(- $355,000)		$300,000	
Dec:	1	Debt Serv.	80,000				
	10	Bills	30,000				
	13	Payroll #11	190,000				
	23	Bills	100,000				
	30	Payroll #12	170,000				
			$570,000	(- $570,000)			
Jan:	14	Bills	20,000				
	15	Payroll #13	200,000				
	28	Bills & FICA	160,000				
	30	Payroll #14	190,000				
			$570,000	(- $570,000)			
Feb:	11	Bills	20,000				
	14	Payroll #15	190,000				
	25	Bills	100,000				
	28	Payroll #16	190,000				
			$500,000	(- $500,000)			(RAN #1 $350,000)

Schedule A - Monthly Cash Flow Estimates

Month		Expense		+ or -	Revenues		(Anticipated Borrowing)
Mar:	11	Bills	$ 25,000				
	14	Payroll #17	190,000		T'bk. Aid	45,000	
	25	Bills	90,000				
	27				Returned Taxes	150,000	
	31	Payroll #18	195,000				
			$500,000	(- $305,000)		$195,000	(RAN #2 $350,000)
Apr:	8	Bills	35,000				
	15	Payroll #19	195,000		St. Aid	705,000	
	22	Bills	100,000				
	30	Payroll #20	190,000		BOCES Aid	90,000	
			$520,000	+ $275,000		$795,000	(Partial Repmt. RAN)
May:	6	Bills	35,000				
	15	Payroll #21	195,000		St. Aid	705,000	
	20	Bills, NYC Retirmt.	200,000				
	30	Payroll #22	190,000		BOCES Aid	100,000	
			$620,000	+ $185,000		$805,000	(Partial Repmt. RAN)
June:	6				NDEA & Misc.	25,000	
	10	Bills	20,000				
	16	Payroll #23	190,000		St. Aid	705,000	
	24	Bills	100,000		BOCES Aid	100,000	
	27	Payroll #24	195,000				
			$505,000	+ $300,000		$805,000	(Bal. of RAN Repmt.)

SCHEDULE B

Estimated Yearly Cash Flow and Investment Schedule

Date	Explanation	Est. Expense	Est. Revenues	Est. Balance	Investment Maturity	Estimated Balance
7/1/74				100,000		
7/15/74	Payroll #1	35,000		65,000		
7/16/74	Bills	25,000		40,000		
7/30/74	Payroll #2	35,000		5,000		
8/13/74	Bills & TANs	30,000	200,000	175,000		
8/15/74	Payroll #3	35,000		140,000		
8/30/74	Payroll #4	35,000		105,000		
9/10/74	Bills	25,000		80,000		
9/15/74	Payroll #5 & St. Aid	175,000	225,000	130,000		
9/24/74	Bills (BOCES 2nd monthly payment)	100,000		30,000		
9/30/74	Taxes, Payroll #6, Repay TAN	385,000	2,300,000	1,945,000	(-1,900,000)	45,000
10/1/74	BOCES Aid		30,000	1,975,000		75,000
10/8/74	Bills	40,000		1,935,000		35,000
10/15/74	Payroll #7, St. Aid	185,000	235,000	1,985,000		85,000
10/29/74	Bills, FICA	140,000		1,845,000	#1 100,000	45,000
10/30/74	Payroll #8, Admsns.	185,000	5,000	1,665,000	#2 150,000	15,000
11/1/74	Debt Serv.; BOCES Aid	125,000	30,000	1,570,000	#3 125,000	45,000
11/12/74	Bills	40,000		1,530,000		5,000
11/15/74	Payroll #9, St. Aid	190,000	235,000	1,575,000		50,000
11/26/74	Bills - Admsns.	110,000	5,000	1,470,000	#4 100,000	45,000
11/29/74	Payroll #10,BOCES Aid	190,000	30,000	1,310,000	#5 150,000	35,000
12/1/74	Debt Service	80,000		1,230,000	#6 100,000	55,000
12/10/74	Bills	30,000		1,200,000		25,000
12/13/74	Payroll #11	190,000		1,010,000	#7 175,000	10,000
12/23/74	Bills	100,000		910,000	#8 100,000	10,000
12/30/74	Payroll #12	170,000		740,000	#9 180,000	20,000
1/14/75	Bills	20,000		720,000		
1/15/75	Payroll #13	200,000		520,000	#10 200,000	
1/28/75	Bills & FICA	160,000		360,000	#11 175,000	15,000
1/30/75	Payroll #14	190,000		170,000	#12 200,000	25,000
2/11/75	Bills	20,000		150,000		5,000
2/14/75	Payroll #15 & RAN	190,000	500,000	460,000	#13 145,000	460,000
2/25/75	Bills	100,000		360,000		
2/30/75	Payroll #16	190,000		170,000		
3/11/75	Bills	25,000		145,000		
3/14/75	Payroll #17, T'bk Aid	190,000	45,000	--		
3/25/75	Bills & RAN	90,000	200,000	110,000		
3/27/75	Returned Taxes		150,000	260,000		
3/31/75	Payroll #18	195,000		65,000		
4/8/75	Bills	35,000		30,000		
4/15/75	St. Aid, Pyrl. #19	195,000	705,000	540,000		
4/22/75	Bills (100); (250 - Repay RAN partial	350,000		190,000		
4/30/75	Payroll #20 & BOCES Aid	190,000	90,000	90,000		
5/6/75	Bills	35,000		55,000		
5/15/75	Payroll #21, St. Aid	195,000	705,000	565,000		
5/16/75	Repay RANs Partial	200,000		365,000		
5/20/75	Bills, NYS Ret. Sys.	200,000		165,000		
5/30/75	Payroll #22 & BOCES Aid	190,000	100,000	75,000		

Schedule B - Estimated Yearly Cash Flow and Investment Schedule

Date	Explanation	Est. Expense	Est. Revenues	Est. Balance	Investment Maturity	Estimated Balance
6/6/75	NDEA Aid, Misc Revenues		25,000	100,000		
6/10/75	Bills	20,000		80,000		
6/16/75	Payroll #23, St. Aid	190,000	705,000	595,000		
6/17/75	Repay Balance RAN	250,000		345,000		
6/24/75	Bills & BOCES Aid	100,000	100,000	345,000		
6/27/75	Payroll #24	195,000		150,000		

SCHEDULE C

Partial Investment Schedule

Investment #	Amount	Due Date
1	$ 100,000	10/29
2	150,000	10/30
3	125,000	11/1
4	100,000	11/26
5.	150,000	11/29
6	100,000	12/1
7	175,000	12/13
8	100,000	12/23
9	180,000	12/30
10	200,000	1/15
11	175,000	1/28
12	200,000	1/30
13	145,000	2/14

(Investment of $1,900,000 9/30/75

CHAPTER IV

TYPES OF INVESTMENTS

A. CERTIFICATES OF DEPOSIT - (TIME DEPOSIT)

The maturities on these certificates can range from 30 days to one year or longer. The rates are regulated by the Federal Reserve System and, at times, rate ceilings are imposed. These certificates can either be negotiable or non-negotiable. Most districts utilize non-negotiable certificates and pick a maturity date which coincides with the time at which they need the money. However, they can also be negotiable and may be sold if the money is needed sooner. The rates paid by the bank are subject, of course, to current money market conditions. The certificates are also a safe form of investment because the bank is required to pledge Treasury securities against the deposit. In actuality, a district enjoys the same protection as if the money were invested in Treasury securities.

B. TREASURY BILLS

Treasury bills are probably the safest form of investment that a school district can purchase. They are very flexible instruments that can be purchased to mature practically any week during the next year. They are also very marketable since they are obligations of the United States.

However, it is not practical to invest smaller sums of money in these securities because of the surcharge or odd-lot fees which are imposed on purchases in amounts of less than $100,000. For bills which are held a short period of time, these extra fees can eat quite heavily into the interest which otherwise would be earned on the investment.

C. REPURCHASE AGREEMENTS

Another form of investment, which is fairly new, is called a "repurchase agreement." It is an investment vehicle which only a few local municipalities and school districts are using at the present time. Basically, this form of investment is one in which the bank sells government or agency bonds, which it holds, with an agreement to buy these same bonds back on a specified day. The district will be paid interest at a stated rate over the entire period of the contract. Since this transaction involves the purchase and resale of a U.S. Government security, the district has the same safety as if it purchased the security outright or deposited it in a certificate with the bank. The rates on these agreements are tied to the short-term money market. Generally, the rate of interest fluctuates with the Federal funds rate.

C. REPURCHASE AGREEMENTS (Continued)

The advantages of repurchase agreements are that they are simple to handle, they are safe, and can be utilized for periods as short as one day. All it takes is a phone call to a bank. Securities do not change hands, rather they are set aside in a segregated account. The district does not receive physical delivery, but it does receive advices of the purchase, sale, and interest paid.

D. SAVINGS (PASSBOOK) ACCOUNTS

Depending on the interest rates available on the aforementioned investment vehicles, you might find it advantageous to place the surplus funds in a savings account in a commercial bank.

Prior to this investment of school funds, you should consider the advantages and limitations of all of the investment options available to you and then pick the one which best suits your district's cash flow needs, and produces the best interest income.

CHAPTER V

WIRE TRANSFER OF INVESTED FUNDS

In order to obtain maximum interest rates on invested funds, it is important to take advantage of the fact that competitive bidding, through the use of either written or oral (telephone) bids, tends to elicit better interest rates from participating banks. By contacting various out-of-town banks, as well as local banks, you should be able to obtain maximum yield on your investment.

It is recommended that you should use wire transfer of funds from your account to the bank which gave you the best bid. Likewise, when the investment matures, that bank should "wire transfer" principal plus interest back to your account.

The school investing official should clearly stipulate in advance of awarding the bid that all funds be federal funds (sometimes referred to as "good money").

When a wire transfer investment is placed with a bank, it is important that a cover letter be sent by the school to the appropriate bank officer clearly stating the amount of the investment, the type of investment, the maturity date, the quoted interest rate and cash proceeds, and the stipulation that the investment and interest proceeds will be wire transferred in federal funds back to the school account on the day on which the investment matures.

CHAPTER VI

ARBITRAGE

Definition

Arbitrage can be defined simply as the issuance of tax-exempt notes and bonds for the purpose of investing the proceeds in taxable obligations and profiting by the "spread" between the two types of issues. The term "spread" refers to the difference between the money paid for interest on borrowings and the interest received from investments.

Section 103, Subdivision D, of the Internal Revenue Code, supplemented by separate Treasury regulations, generally prohibits this practice and qualifies the spread or yield between the two types of obligations. At present, the spread between the interest rate paid on the school district's obligations and the amount that can be earned on the taxable investment cannot exceed 1/8 of one percent.

There are several exceptions to this limitation of 1/8 of one percent on the spread:

1. Long-Term Bond Issue - Under the Internal Revenue System regulations, a bond issue is not a long-term issue unless the maturity of the issue is at least 20 years. The proceeds of long-term bonds issued to finance construction projects may be invested without limitation as to spread for a period of three years from the date of issue. The three-year exception is to allow the school district to invest the proceeds during a reasonable construction period. From then on, the district is entitled only to the 1/8 of one percent spread.

In order to qualify for the unlimited investment return during this three-year period, the school district must comply with certain requirements:

a. Enter into construction contracts to start the project to be financed within three months after the bonds are sold, and

b. Expend at least 85 percent of the bond proceeds on the project within the three-year period after the bonds were issued.

2. Short Term Issue - A short term issue is one having an average life of less than ten years. The school district is permitted whatever investment return can be obtained for up to two years subject to certain requirements:

a. At least 20 percent of the proceeds must be spent during the first half of the period.

b. 30 percent must be spent during the first three-quarters of the period.

c. 95 percent must be expended by the end of the two-year period.

The same general rules that apply to bonds apply to bond anticipation notes. If your authorization for bond anticipation notes commits the school district to refinance these noted by either long-term or short-term bond issues, then those regulations treat the B.A.N. proceeds exactly as if they were part of either the long-or short-term bond issue.

Tax Revenue Anticipation Notes

Tax and Revenue Anticipation Notes cannot be issued in excess of the school district's cumulative deficit cash flow for arbitrage purposes.

A cumulative deficit cash flow may be calculated by adding the opening balance and revenues and subtracting the expenditures of the school district on a monthly basis. The total of revenue and tax anticipation notes which may be issued may be equal to or less than the greatest cumulative deficit estimated in any month of the fiscal year plus a reasonable cash reserve.

Caution

Before engaging in arbitrage operations, it would be advisable to check with your bond counsel. The principles listed above are, in our opinion, accurate. However, a request for review addressed to the Internal Revenue Service was denied on the basis that they will react only to specific cases. It would be prudent, therefore, to consult with your district's bonding attorney prior to any arbitrage operations.

CHAPTER VII

GLOSSARY OF TERMS

ACCRUED INTEREST: The interest accumulated on a security from its issued date or since the last payment of interest up to the date of sale. The purchaser of the bond pays to the seller the market price plus accrued interest.

BASIS POINT: One one-hundredth (1/100) of one percent. There are 100 basis points to each percent of yield.

BEARER BOND: A bond whose principal and/or interest is payable to the holder since the name of the owner is not registered with the issuer.

BEAR MARKET: When market conditions reflect generally pessimistic attitudes resulting in decreasing market values and corresponding increases in yields.

BULL MARKET: A period of general optimistic attitudes with increasing market values of government securities and a corresponding decrease in yields.

CALLABLE: The issuer, under terms designated prior to the sale, reserves the right to be able to redeem a security prior to its maturity.

CALL DATE: The date or dates on which a security may be called for redemption by the issuer.

CONFIRMATION: The document used to state in writing the terms of sale which had previously been agreed to verbally.

COUPON: That portion of the security which shows the interest due on the payable date (usually semi-annually) and is presented by the holder for payment.

DEALER: An individual or firm which purchases securities for its own account and sells to clients from its inventory.

DISCOUNT: When the market price of a security is below par.

FACE VALUE: Par Value - the principal amount due and payable to the bond holder at maturity.

FEDERAL FUNDS: Monies within the Federal Reserve System representing member banks' surplus funds. Banks with excess funds may sell their surplus to other banks whose funds are below required reserve levels. Normally, federal funds are employed in settling all government security transactions.

MARKETABILITY: The ability to readily buy and sell securities without materially affecting market rates.

MATURITY: The date stated on a security for the payment of the face value by the issuer.

NEW ISSUE: The initial sale of a security.

ODD-LOT: A quantity of securities which is less than the accepted unit of trading (usually quantities of less than $100,000 face value).

PAR: 100% of face value of a security.

PREMIUM: When the market price of a security is above par.

REGISTERED BOND: The name and address of the owner of the bond is registered with the issuer or its paying agent allowing principal and/or interest payments to be mailed directly to the owner.

SYNDICATE: A group of security dealers (usually banks and/or investment banking firms) formed to bid for the purchase of a proposed issue of securities.

YIELD TO MATURITY: The average annual percentage return which investors would receive on their investment if they were to buy a particular security at the quoted asked price and hold to maturity.

DEBT SERVICE FOR CITY SCHOOL DISTRICTS

In determining the debt contracting power of a city school district, Section 104.00, Paragraph C, of the Local Finance Law must be taken into consideration. Any school district in a city may issue bonds, bond anticipation notes or capital notes for a specific object or purpose having a period of probable usefulness as provided in paragraph A of Section 11.00 of the Local Finance Law in an amount which includes existing indebtedness and which shall not exceed an amount in excess of five percentum of the average full valuation for the last five years, without voter approval, provided that:

1. With a proposed maturity of not more than ten years in the case of a city school district having an elective board of education.

2. Not more than fifteen years of a city school district in existance on January 1, 1967 and having an elective board of education provided, that a bond resolution adopted by the finance board thereof providing for the issuance of bonds with a proposed maturity of more than ten years but not more than fifteen years shall be subject to permissive election as provided in Section 2612 of the Education Law.

AVERAGE LIFE: is a mathematical equation that determines when one-half of the total principal payments have been made.

COMPUTATION OF DEBT LIMIT

Year Ending June 30	Assessed Valuation	Equalization Rate	Full Valuation
1970	$75,774,908	50%	$151,549,816
1971	76,748,717	48%	159,893,160
1972	77,483,450	45%	172,185,444
1973	77,794,840	44%	176,806,454
1974	77,016,973	42%	183,373,745
TOTAL			$843,808,619
Five Year Average Full Valuation			168,761,723.80
Debt Limit - 5%			8,438,086

CALCULATION OF TOTAL NET INDEBTEDNESS - MARCH 1, 1975

Inclusions:			
Outstanding Bonds		$4,270,000	
Bond Anticipation Notes:			
This issue	$1,620,000		
Other	2,500,000	4,120,000	
Capital Notes		50,000	
Revenue Anticipation Notes		2,000,000	
TOTAL		$10,440,000	
Exclusions:			
Appropriations-Bond and Note Principal		$ 700,000	
Revenue Anticipation Notes		2,000,000	
TOTAL			$2,700,000
TOTAL NET INDEBTEDNESS INCLUDING THIS ISSUE			$7,740,000

The total net indebtedness including this issue is $7,740,000 or 91.72 of the debt limit of $8,438,086.